

Inspector General

United States Department *of* Defense



DOD Oversight Improvements Are Needed on the
Contractor Accounting System for the Army's
Cost-Reimbursable Stryker Logistics Support Contract

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Acronyms

ACO	Administrative Contracting Officer
ADA	Antideficiency Act
CLIN	Contract Line Item Number
CLS	Contractor Logistics Support
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DFARS PGI	Defense Federal Acquisition Regulation Supplement, Procedure, Guidance, and Instruction
DoD FMR	DoD Financial Management Regulation
DPAP	Defense Procurement and Acquisition Policy
FAR	Federal Acquisition Regulation
GDLS	General Dynamics Land System
PCO	Procuring Contracting Officer
PEO	Program Executive Officer
PMO	Project Management Office
PWGSC	Public Works and Government Services, Canada



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

July 16, 2013

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE ACQUISITION,
TECHNOLOGY, AND LOGISTICS
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
DIRECTOR, DEFENSE CONTRACT MANAGEMENT
AGENCY**

SUBJECT: DoD Oversight Improvements Are Needed on the Contractor Accounting System for the Army's Cost-Reimbursable Stryker Logistics Support Contract (Report No. DODIG-2013-104)

We are providing this report for your information and use. We found that the Army and the Defense Contract Management Agency did not identify contractor accounting system weaknesses on the Stryker cost-reimbursable contract, valued at \$1.6 billion. As a result, the Army was potentially billed for as much as \$866.1 million in reimbursable costs that were charged to the incorrect contract line items and fiscal appropriation. This report is the third of three reports on the effectiveness of the contractor logistics support strategy for the Stryker family of vehicles.

We considered management comments on a draft of this report when preparing the final report. Comments from the Director, Defense Procurement and Acquisition Policy; the Program Executive Officer Ground Combat Systems; and the Director, Defense Contract Management Agency conformed to the requirements of DoD Directive 7650.3; therefore, additional comments were not required.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9077 (DSN 664-9077).

Jacqueline L. Wicecarver
Jacqueline L. Wicecarver
Assistant Inspector General
Acquisition, Parts, and Inventory



Results in Brief: DoD Oversight Improvements Are Needed on the Contractor Accounting System for the Army's Cost-Reimbursable Stryker Logistics Support Contract

What We Did

We evaluated the effectiveness of the contractor logistics support (CLS) strategy for the Stryker family of vehicles. This report is the third in a series of three reports and addresses contractor billings. The first report addressed contract type and performance metrics. The second report addressed controls over Government property.

What We Found

The Project Management Office Stryker Brigade Combat Team (PMO Stryker) and Defense Contract Management Agency (DCMA)-Detroit officials did not verify that General Dynamics Land Systems (GDLS)-Canada's accounting system was adequate on the cost-reimbursable services contract for logistics support of Stryker vehicles. This condition occurred because PMO Stryker and DCMA-Detroit did not establish an adequate system of internal controls to verify that the billing system for vouchers reconciled to the appropriate cost accounts. Additionally, due to inadequately defined audit standards, DCMA-Detroit did not coordinate with Public Works and Government Services, Canada (PWGSC) to develop adequate verification procedures for GDLS-Canada's material charges on its consolidated interim vouchers.

As a result, GDLS-Canada potentially charged as much as \$866.8 million of incurred reimbursable costs to the incorrect contract line

item numbers and fiscal appropriations. Additionally, PMO Stryker risked potentially violating the Antideficiency Act (ADA) by paying the misapplied charges. Further, as of February 2013, PMO Stryker paid approximately \$1.5 billion on the Stryker CLS contract without verifying that GDLS-Canada's portion of the reimbursable costs was accurate.

What We Recommend

Among other recommendations, the Director, Defense Procurement and Acquisition Policy should continue to negotiate an agreement between the U.S. and Canadian governments that allows PWGSC to perform audit support services that comply with applicable U.S. fiscal laws and accounting standards on U.S. contracts with Canadian companies. Additionally, the Director, DCMA should request that PWGSC review GDLS-Canada accounting system for adequacy by verifying that actual costs are tracked to the appropriate project tasks and billed to the proper appropriation. Further, PMO Stryker, with support from the Army Contracting Command-Warren, should report any potential ADA violations to the Assistant Secretary of the Army (Financial Management and Comptroller).

Management Comments and Our Response

Management comments were responsive. See the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Defense Procurement and Acquisition Policy		1
Program Executive Officer Ground Combat Systems		3.a and 3.b
Director, Defense Contract Management Agency		2.a and 2.b

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Introduction

Objectives

The overall objective of the audit was to evaluate the effectiveness of the contractor logistics support (CLS) sustainment strategy for Stryker vehicles. Specifically, we reviewed contract funding procedures, contract type, performance metrics, contractor billings, and controls over Government property that is being managed by the contractor. See Appendix A for a discussion of the scope and methodology and prior audit coverage related to the objective.

This report is the third in a series of three reports and addresses contractor billings. The first report, DODIG-2012-102, “Better Cost-Control Measures Are Needed on the Army’s Cost-Reimbursable Services Contract for Logistics Support of Stryker Vehicles,” June 18, 2012, addressed contract type and performance metrics. The second report, DODIG-2013-025, “Accountability Was Missing for Government Property Procured on the Army’s Services Contract for Logistics Support of Stryker Vehicles,” November 30, 2012, addressed controls over Government property (Army-owned Stryker inventory).

We performed this audit pursuant to Public Law 110-417, “Duncan Hunter National Defense Authorization Act for Fiscal Year 2009,” Section 852, “Comprehensive Audit of Spare Parts Purchases and Depot Overhaul and Maintenance of Equipment for Operations in Iraq and Afghanistan,” October 14, 2008. Section 852 requires:

thorough audits to identify potential waste, fraud, and abuse in the performance of the following: (1) Department of Defense contracts, subcontracts, and task and delivery orders for—(A) depot overhaul and maintenance of equipment for the military in Iraq and Afghanistan; and (B) spare parts for military equipment used in Iraq and Afghanistan.

Background

Different organizations within the DoD, Army, and Canadian Government provided policy and oversight functions that directly impacted the CLS sustainment for Stryker vehicles. The following sections describe some of those organizations along with the contractor and the Stryker CLS contract.

Defense Procurement and Acquisition Policy

The Defense Procurement and Acquisition Policy (DPAP), is an office under the Under Secretary of Defense for Acquisition, Technology, and Logistics, responsible for establishing contracting and procurement policy for the DoD. DPAP’s mission is to enable components to effectively deliver equipment and services that meet the needs of the warfighter through innovative policy, guidance, and oversight while being good stewards of the taxpayers’ money. Specifically, DPAP implements policy by updating and revising the Defense Federal Acquisition Regulation Supplement (DFARS) and DFARS Procedures, Guidance, and Instruction (DFARS PGI).

Assistant Secretary of the Army (Financial Management and Comptroller)

The Assistant Secretary of the Army (Financial Management and Comptroller) is responsible for formulating, submitting, and defending the Army's budget to Congress and the American people and for overseeing the proper and effective use of the appropriated resources to accomplish the Army's assigned missions. Specifically, the Assistant Secretary of the Army (Financial Management and Comptroller) is responsible for the Army's finance- and accounting-related policies, procedures, programs, and systems; financial management systems; internal control programs; internal review and audit compliance activities; reports of potential violations of the Antideficiency Act (ADA); and other management evaluation activities.

Defense Contract Management Agency

The Defense Contract Management Agency (DCMA) provides contract administration services to the DoD acquisition community. DCMA performs a variety of pre-contract award services by request, including solicitation advice, identification of potential risks, contractor selection, and formation of effective contracts. DCMA also offers post-contract award administration services to ensure that costs, performance, and delivery schedules are all in compliance with the contract terms. DCMA has many field office sites in and outside the continental U.S., including locations in Detroit, Michigan and London, Ontario, Canada.

Defense Contract Audit Agency

The Defense Contract Audit Agency (DCAA) provides a wide variety of audit and advisory services to contracting officers. DCAA performs pre-contract award services including price proposals, surveys, forward pricing labor and overhead rates, and negotiation assistance. Also, DCAA conducts accounting system reviews to determine the costs being reported by the contractors are accurate. In addition, DCAA offers post-contract award audit services such as incurred costs, annual overhead rates, and compliance with Cost Accounting Standards.

Public Works and Government Services, Canada

According to its website,¹ Public Works and Government Services, Canada (PWGSC) is a service agency of the Canadian government that delivers high-quality services and programs that meet the needs of Canadian federal organizations and ensure sound stewardship on behalf of Canadians. One of PWGSC's specific functions is to perform assist audits on DoD contracts placed with the Canadian Commercial Corporation. The Canadian Commercial Corporation is a Canadian government agency that serves as the prime contractor on most DoD contracts that are awarded to a Canadian company and exceed the \$150,000 simplified acquisition threshold.

¹ The website source is <http://www.tpsgc-pwgsc.gc.ca/apropos-about/prps-bt-eng.html>.

Project Management Office Stryker Brigade Combat Team

The Project Management Office, Stryker Brigade Combat Team (PMO Stryker), is a subsidiary office of the Program Executive Office, Ground Combat Systems, which is under the command of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology). According to the Army website,² the mission of the PMO Stryker is to provide proven superior acquisition, development, and sustainment of the Stryker family of vehicles that afford the warfighter quick-response maneuvering, enhanced survivability and lethality, expanded fight versatility, and proven tactical agility.

The Stryker family of vehicles is a 19-ton, 8-wheeled, armored vehicle platform composed of 17 configurations (10 basic and 7 double-v hull configurations). Originally named the “Interim Armored Vehicle,” the overall mission of the Stryker is to enable soldiers to maneuver more easily in close quarters and urban terrain while providing protection in the open terrain. See the Infantry Carrier Vehicle, a variant of the Stryker vehicle, in Figure 1.

Figure 1. Stryker “Infantry Carrier Vehicle”



Source: www.sbct.army.mil.

General Dynamics

According to its website,³ General Dynamics Corporation is an international Defense contractor that offers a wide array of land and amphibious combat systems, subsystems, and components. In addition to the Stryker family of vehicles, General Dynamics has developed a variety of other combat vehicles, such as the Light-Armored Vehicle, M1 Abrams tank, Fox vehicle, Mine-Resistant Ambush-Protected vehicle, and the Expeditionary Fighting vehicle. Since the inception of the Stryker program, General Dynamics has handled both production and contractor logistics support requirements primarily through its subsidiary, General Dynamics Land Systems (GDLS) Inc.

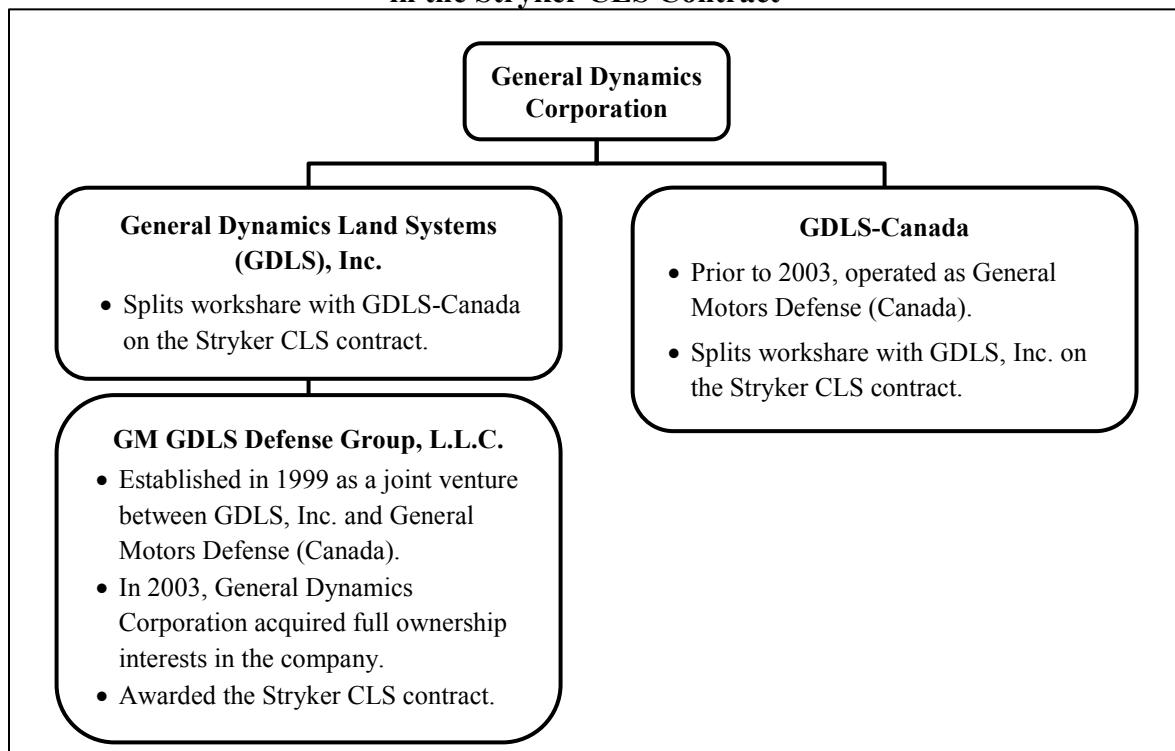
GM GDLS Defense Group, L.L.C. was incorporated in October 1999 as a joint venture between GDLS, Inc. and General Motors Defense of Canada. The joint venture allowed

² The website source is <http://www.peogcs.army.mil/sbct.html>.

³ The website source is <http://www.geraldynamics.com>

the two companies to combine their resources and generate a contract proposal that would meet the accelerated requirements of the Stryker program. In November 2000, Army Contracting Command-Warren competitively awarded the initial Stryker production contract, which included provisions for CLS, to the joint venture. In March 2003, General Dynamics Corporation acquired General Motors Defense, which it renamed GDLS-Canada, and kept it operationally separate from GDLS, Inc. In December 2006, Army Contracting Command-Warren awarded a multi-year delivery order for CLS requirements to GM GDLS Defense Group, L.L.C. Figure 2 illustrates the overall organizational structure of the General Dynamics components involved in performing the Stryker CLS contract as of March 2013.

Figure 2. Business Structure of General Dynamics' Subsidiaries Involved in the Stryker CLS Contract



Stryker/GDLS Follow-On CLS Contracts

The follow-on CLS contract was a 6-year (base year and 5 option years), cost-plus-fixed-fee contract, which as of February 2013, was funded for approximately \$1.6 billion,⁴ including fees or profit of \$139.3 million (contract W56HZV-07-D-M112 delivery orders 0019, 0169, and 0269). GDLS, Inc. and GDLS-Canada are responsible for performing scheduled and unscheduled maintenance; requesting, receiving, storing, and issuing all Stryker vehicle spares and repair parts; and documenting all part consumption and vehicle repairs. GDLS, Inc. and GDLS-Canada provide CLS to

⁴ Contract value of \$1.6 billion includes only CLS contract line items of more than \$40 million.

maintain all Stryker garrison and deployment⁵ vehicles at a fully mission-capable status. The second follow-on Stryker logistics support contract (contract W56HZV-13-D-0008 delivery order 0002) was awarded as an undefinitized⁶ contract in December 2012 and is scheduled for definitization⁷ in June 2013.

Review of Internal Controls Over Interim Vouchers

DoD Instruction 5010.40, “Managers’ Internal Control Program (MICP) Procedures,” July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses for PMO Stryker and DCMA-Detroit. Specifically, PMO Stryker and DCMA-Detroit officials did not establish adequate oversight to review the contractor accounting system and verify that interim vouchers reconciled to the appropriate cost accounts, as required by DFARS 252.242-7006, “Accounting System Administration.” Additionally, DCMA-Detroit did not coordinate with PWGSC to develop adequate verification procedures for GDLS-Canada’s material charges before the DCAA resident office approved the consolidated interim vouchers submitted for payment. We will provide a copy of the report to the senior official responsible for internal controls in the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Army Program Executive Office Ground Combat Systems.

⁵ “Garrison” describes Stryker vehicles stationed at a permanent military post. “Deployment” describes Stryker vehicles that are deployed in theater to support a military operation.

⁶ The Government initiates an undefinitized contract action when the contract terms, specifications, or price could not reasonably be negotiated in sufficient time to meet requirements that are in the Government’s best interest. The Government must establish a not-to-exceed contract ceiling price and obligate no more than 50 percent of the ceiling price.

⁷ Definitization is the act of agreeing on contract terms, specifications, and price which converts the undefinitized contract to a definitive contract. Definitization must occur within 180 days after the contractor submits a qualifying proposal.

Finding. Oversight Improvements Are Needed for General Dynamics Land Systems-Canada's Accounting System

PMO Stryker and DCMA-Detroit did not verify that GDLS-Canada's accounting system was adequate during the execution of the cost-reimbursable services contract for logistics support of Stryker vehicles, as required by the Federal Acquisition Regulation (FAR) Subpart 16.3, "Cost-Reimbursable Contracts."

This condition occurred because PMO Stryker and DCMA-Detroit did not establish an adequate system of internal controls to review GDLS-Canada's accounting system and verify that the billing system for vouchers reconciled to the appropriate cost accounts, as required by the DFARS. Specifically, the contractor did not charge costs for specific job tasks to contract line item numbers (CLINs) based on the scope of work and the period of performance in which the costs were actually incurred. Instead, GDLS-Canada inappropriately charged reimbursable costs to CLINs based solely on the amount of obligated funds remaining on the CLINs. Additionally, due to inadequately defined standards for reciprocal audit support services between U.S. and Canadian governments for DoD procurements, DCMA-Detroit did not coordinate with PWGSC to develop adequate verification procedures for GDLS-Canada's material charges before DCAA resident office approved the consolidated interim vouchers submitted for payment.

As a result, GDLS-Canada potentially charged as much as \$866.8 million⁸ of incurred reimbursable costs to the incorrect CLINs that were each funded with specific appropriations. Also, PMO Stryker risked potentially violating the ADA by paying the misapplied charges. In addition, GDLS-Canada's accounting system deficiencies may have resulted in the misrepresentation of budgetary needs for future years. Further, as of February 2013, PMO Stryker had paid approximately \$1.5 billion⁹ on the Stryker CLS contract without verifying that GDLS-Canada's portion of the reimbursable costs was complete and accurate, which increases the risk of improper payments.

⁸ On January 28, 2013, a GDLS-Canada contracting official stated that GDLS-Canada had submitted approximately \$866.8 million in interim voucher claims through GDLS, Inc., into consolidated interim vouchers, for CLS delivery order 0019 from March 2007 to June 2012.

⁹ The \$1.5 billion only includes payments made against CLS contract line items with obligated funds of more than \$40 million.

Structure of Contract Delivery Order 0019

The Stryker CLS contract delivery order 0019 was administered over a 4-year period and consisted of the following three efforts with distinct scopes of work for the Stryker vehicle.

- CLS Garrison and Deployment—fully integrated logistics services for garrison and deployment vehicles, which include forecasting, ordering, receiving, storing, and issuing spare parts as well as scheduled maintenance and minor repair services.
- Reset—an assessment of the serviceability of vehicles returning from Southwest Asia and a major overhaul of non-serviceable components to bring the vehicle back to a fully mission capable condition.
- Battle Damage Assessment and Repair—repair and technical support for repair of extensively damaged vehicles to a fully mission capable condition.

The contract costs for the three efforts were negotiated separately, funded with various appropriations, and executed on the contract under separate CLINs. The CLS garrison and deployment effort was incrementally funded with operations and maintenance funds over four consecutive annual periods of performance from March 1, 2007 to February 28, 2011.

Adequacy of the Contractor's Accounting System Needed Verification

PMO Stryker and DCMA-Detroit did not verify that GDLS-Canada's accounting system¹⁰ was adequate during the execution of the cost-reimbursable services contract for logistics support of Stryker vehicles, as required. FAR Subpart 16.3 requires contracting officers to confirm that the contractor's accounting system is adequate when using a cost-reimbursable contract. Specifically, FAR 16.301-3, "Limitations," states:

- (a) A cost-reimbursement contract may be used only when –

[Paragraphs omitted]

- (3) The contractor's accounting system is adequate for determining costs applicable to the contract or order.

¹⁰ According to DFARS 252.242-7006(a), an accounting system is “the Contractor’s system or systems for accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for reporting in compliance with applicable laws, regulations, and management decisions, and may include subsystems for specific areas such as indirect and other direct costs, compensation, billing, labor, and general information technology.”

Additionally, FAR Subpart 42.3, “Contract Administration Office Functions,” requires the administrative contracting officer (ACO) to verify that the contractor’s accounting system and internal controls are adequate enough to produce contractor data which can be relied upon for Government oversight of contractor performance. Specifically, FAR 42.302(a)(12), “Contract Administration Functions,” states:

(12) Determine the adequacy of the contractor’s accounting system. The contractor’s accounting system should be adequate during the entire period of contract performance. The adequacy of the contractor’s accounting system and its associated internal control system, as well as contractor compliance with the Cost Accounting Standards (CAS), affect the quality and validity of the contractor data upon which the Government must rely for its management oversight of the contractor and contract performance.

GDLS-Canada’s Interim Vouchers Did Not Reconcile to the Appropriate Cost Accounts

PMO Stryker and DCMA-Detroit did not establish an adequate system of internal controls to review GDLS-Canada’s accounting system and verify that the billing system for interim vouchers reconciled to the appropriate cost accounts, as required by the DFARS.¹¹

DFARS 252.242-7006, “Accounting System Administration,” states:

(c) System criteria. The Contractor’s accounting system shall provide for—
[Paragraphs omitted]

(16) Billings that can be reconciled to the cost accounts for both current and cumulative amounts claimed and comply with contract terms.

GDLS-Canada did not charge costs for specific job tasks to CLINs based on the scope of work and the period of performance in which the costs were actually incurred. Instead,

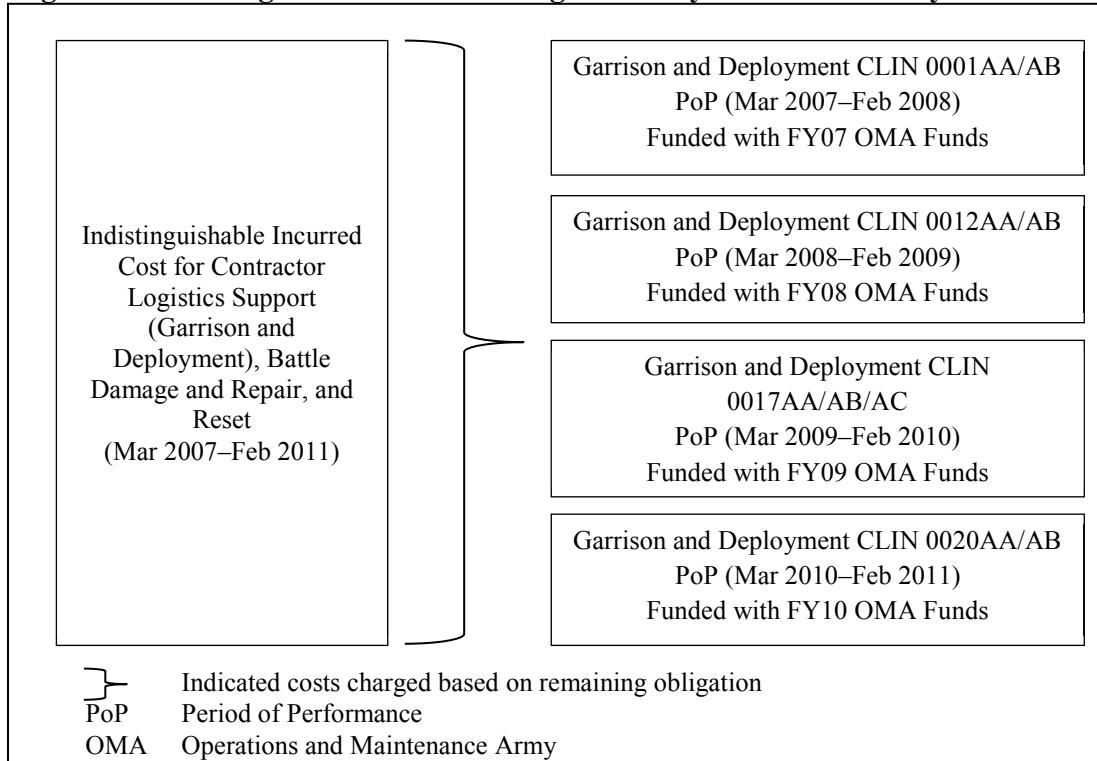
GDLS-Canada did not charge costs for specific job tasks to CLINs based on the scope of work and the period of performance in which the costs were actually incurred.

GDLS-Canada inappropriately charged its reimbursable costs to CLINs based solely on the amount of obligated funds remaining on the CLINs. GDLS-Canada officials stated, “CLINs were billed based on available funding” and “London [Ontario Canada] expenditures are collected at the delivery order level and are allocated to the CLINs based on funded value.” Figure 3 illustrates GDLS-Canada’s

unacceptable accounting practice of disregarding the performance period in which costs were actually incurred, and allocating the indistinguishable incurred costs to CLINs based solely on remaining funding on the CLS delivery order 0019.

¹¹ The Stryker CLS contract was awarded in December 2006 and did not include DFARS clause 252.242-7006 because the clause was not required until February 2012. Although this DFARS clause was not included in the December 2006 Stryker CLS contract, it provides specific criteria that is useful in assessing a contractor’s accounting system. The DFARS clause was included in the undefinitized Stryker CLS contract awarded in December 2012.

Figure 3. Indistinguishable Costs Charged on Stryker CLS Delivery Order 0019



Since PMO Stryker and DCMA-Detroit did not perform a review of GDLS-Canada's accounting system to identify the cost misallocations, GDLS-Canada may have charged as much as \$866.8 million of incurred reimbursable costs to the incorrect CLINs on delivery order 0019, which were funded with specific appropriations from March 2007 through June 2012.

Contract Charges Risk Potential ADA Violations

As a result of GDLS-Canada's accounting system failing to properly charge costs to the contract based on the period of performance in which the costs were actually incurred,

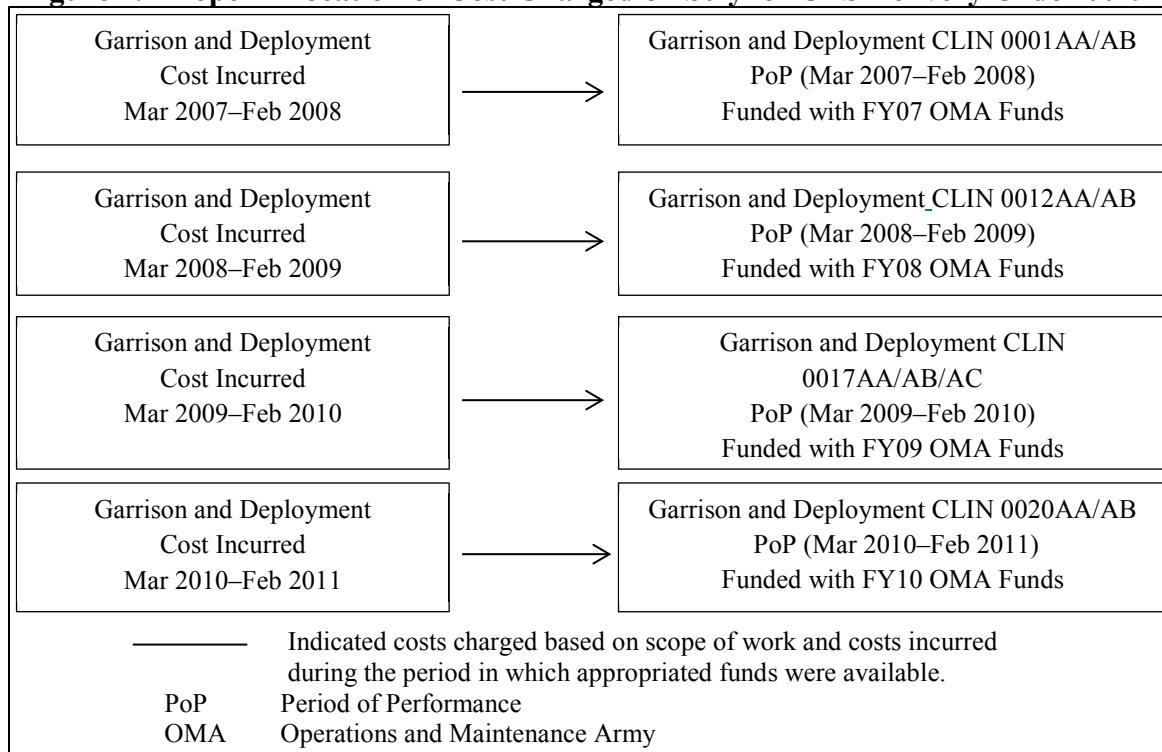
As a result of GDLS-Canada's accounting system...PMO Stryker may have made contract payments that potentially violated the ADA.

PMO Stryker may have made contract payments that potentially violated the ADA. Section 1502, title 31, United States Code (31 U.S.C. § 1502), a statute of the ADA, mandates that appropriations designated for a definite period is only available for payment of expenses incurred during the appropriations period of availability.

- (a) **The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability and obligated consistent with section 1501 of this title. However, the appropriation or fund is not available for expenditure for a period beyond the period otherwise authorized by law. [emphasis added]**

Figure 4 shows how GDLS-Canada should have charged incurred costs during specified periods to the CLINs funded with appropriations that were available during the same period on the CLS delivery order 0019 in accordance with 31 U.S.C. § 1502.

Figure 4. Proper Allocation of Cost Charged on Stryker CLS Delivery Order 0019



GDLS Explanation for Accounting System Inconsistencies

According to GDLS, Inc. officials, GDLS-Canada's Oracle accounting system could not properly track costs to the CLINs based on when the costs were incurred for the Stryker CLS delivery order 0019. Instead, GDLS-Canada's accounting system tracked costs to the delivery order level, which included successive periods of performance.

GDLS-Canada officials acknowledged that the method of accounting was an abnormal practice and was attributed to the unique requirements of the Stryker CLS contract which allowed the comingling of newly purchased as well as government-furnished spare parts to support CLS garrison and deployment, reset, and battle damage assessment and repair requirements. In a letter to PMO Stryker, dated July 18, 2012, GDLS, Inc. officials stated:

General Dynamics [General Dynamics Land Systems]-Canada's material costs were not properly tracked to the CLIN's in the cost accounting system. Because of this practice, GDLS [General Dynamics Land Systems]-Canada could not specifically bill cost by CLIN based on the accounting system but had to allocate cost incurred across applicable CLIN's within the appropriate Delivery Order based on available funding for billings.

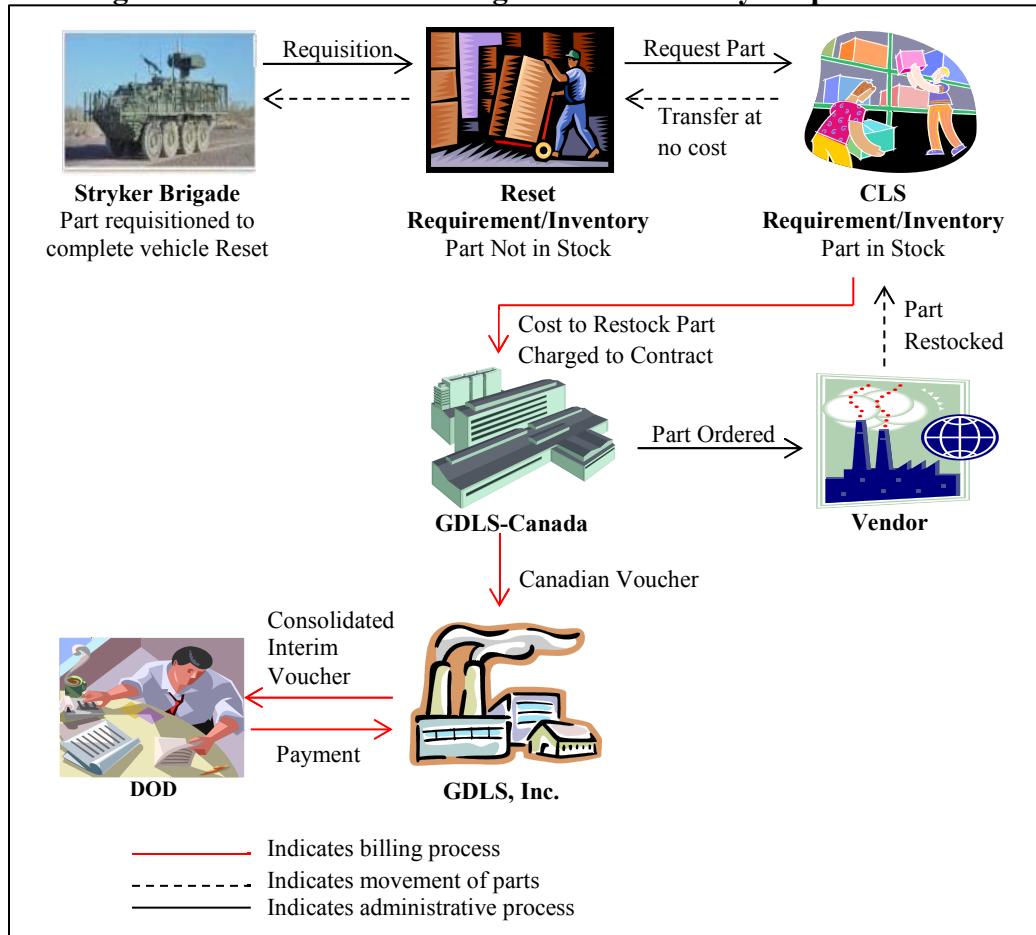
Additionally, in a briefing, dated September 11, 2012, GDLS-Canada officials stated that material requirement costs were not transferred among projects when the material was physically transferred between CLINs for consumption.

Previously GDLS [General Dynamics Land Systems] established task codes for each CLIN, however, the costing of the material by task code was not always consistent with the usage of the material in supporting CLIN activity. Because the material was comingled at the Auburn warehouse and because of the way projects were established in our Accounting System, cost was not always properly transferred between task codes to account for the physical transfer of material between CLIN's to facilitate material usage. Because of this, the actual cost by task code in our Accounting System did not necessarily reflect actual cost by CLIN....

Because of the issues cited above related to the tracking of actuals, previously GDLS did not bill cost by CLIN based on the actuals by task code in the Accounting System.

Figure 5 is an example of GDLS-Canada's accounting process when a project loans a material asset to a stock-deficient project at no cost in order to fill a requisition.

Figure 5. GDLS-Canada Assignment of Costs by Scopes of Work



The Stryker sustainment efforts (CLS garrison and deployment, reset, and battle damage assessment and repair) were funded under separate budget line items. The CLS garrison

funds were provided from the base DoD budget. CLS deployment, reset, and battle damage assessment and repair efforts were funded from the supplemental DoD budget and segregated by the Army into sub-activity groups for budgetary tracking. Therefore, uncorrected GDLS-Canada's accounting system deficiencies may misrepresent the actual material consumption cost which contributes towards future budgetary justifications for the distinct budget line items.

When significant deficiencies in the accounting system are found, the contracting officer must notify the contractor, in writing, of the deficiency and allow the contractor to respond with either a corrective action plan or disagreement. Upon receipt of the contractor's response, the contracting officer is required to evaluate the response and notify the contractor, in writing of the final determination on whether the accounting system is acceptable. DFARS 252.242-7006(d) stated:

- (d) Significant deficiencies. (1) The Contracting Officer will provide an initial determination to the Contractor, in writing, of any significant deficiencies. The initial determination will describe the deficiency in sufficient detail to allow the Contractor to understand the deficiency.
- (2) The Contractor shall respond within 30 days to a written initial determination from the Contracting Officer that identifies significant deficiencies in the Contractor's accounting system. If the Contractor disagrees with the initial determination, the Contractor shall state, in writing, its rationale for disagreeing.
- (3) The Contracting Officer will evaluate the Contractor's response and notify the Contractor, in writing, of the Contracting Officer's final determination concerning—
 - (i) Remaining significant deficiencies;
 - (ii) The adequacy of any proposed or completed corrective action; and
 - (iii) System disapproval, if the Contracting Officer determines that one or more significant deficiencies remain.

Agreement With Public Works and Government Services Canada Did Not Sufficiently Define Audit Services

In December 2002, PWGSC entered into an agreement with PMO Stryker and DCMA-Canada to provide audit services when DoD contractors subcontract directly to Canadian suppliers for the Stryker Brigade Combat Team program. However, during a meeting in October 2012, PMO Stryker and PWGSC officials concurred that the agreement did not sufficiently define the type of audit services that PWGSC would perform or the performance period of such services. The agreement stated:

PWGSC, through CCC [Canadian Commercial Corporation], also provides assist audit services in those cases where U.S. defense contractors place subcontracts directly with Canadian suppliers. In this regard, PWGSC continues to provide assist audit type services to the U.S. Army on the GMD BCT [General Motors Defense Brigade Combat Team] program subcontracts.

According to a PWGSC official, PWGSC performed accounting system reviews consisting of estimating, purchasing, and billing every 3 years on a rotating basis. However, PWGSC did not provide DCMA-Detroit or DCMA-Canada with detailed

reports that summarized the findings and results of the reviews. Instead, PWGSC issued letters to DCMA-Canada that concluded whether the contractor's system was approved or whether major deficiencies were discovered that required corrective actions by GDLS-Canada. For example, in April 2011 after a review of GDLS-Canada's accounting system, PWGSC issued a letter to DCMA-Canada which concluded that while minor deficiencies were identified that required corrective action, the accounting system was acceptable. DFARS 252.242-7006(a) defined an acceptable accounting system as a system that provides reasonable assurance that contract allocations and charges are consistent with billing procedures. However, the PWGSC review did not identify the deficiencies related to the misallocated reimbursable costs. According to a PWGSC official, the PWGSC accounting system review would not have identified the deficiency because the scope of the review did not include the Stryker CLS contracts.

Audit Cognizance for DoD Contracts and Subcontracts With Canadian Companies Were Undefined

The "Defence Production Sharing Agreement Between Canada and the United States of America," July 27, 1956, established reciprocal protocols for the U.S. and Canadian governments to facilitate procurement between the respective countries when the U.S. contract is for supplies and services awarded to the Canadian Commercial Corporation. However, the roles and responsibilities for performing audit services that facilitate procurements on U.S. prime contracts and subcontracts awarded directly to Canadian companies had not been defined and formalized into a reciprocal agreement. According to a DPAP official, DPAP and PWGSC have been conducting ongoing negotiations to establish an annex to a reciprocal defense procurement memorandum of understanding that formalizes audit services in support of U.S. prime contracts and subcontracts with Canadian companies. Meanwhile, PWGSC has and will continue to render audit assist services to DoD at no cost under an informal arrangement until a formal agreement that defines roles and responsibilities for audit services can be negotiated. The DPAP official stated that the initial intent of the planned agreement was to establish procedures for PWGSC auditors to perform price proposal analysis services on behalf of DoD because DoD efforts to obtain cost or pricing data from Canadian companies had historically been difficult. In a letter dated March 15, 2013, the Director, DPAP, requested in addition to price proposal analysis, that PWGSC approve interim vouchers on the cost-reimbursable contract and furnish periodic advisory audit reports of accounting system reviews to the ACO, in accordance with DFARS PGI 225.870, "Contracting with Canadian Contractors." Specifically, DFARS PGI 225.870-5(2)(ii) states:

- (2) The following procedures apply to cost-reimbursable type contracts:

[Paragraphs omitted]

(ii) For contracts placed directly with Canadian firms, the administrative contracting officer requests audits from the CAC [Consulting and Audit Canada], Ottawa, Ontario, Canada. The CAC/PWGSC [Public Works and Government Services, Canada]—

(A) Approves invoices on a provisional basis pending completion of the contract and final audit;

- (B) Forwards these invoices accompanied by SF 1034, Public voucher, to the administrative contracting officer for further processing and transmittal to the disbursing officer; and
- (C) Furnishes periodic advisory audit reports directly to the administrative contracting officer.

The DFARS PGI establishes that PWGSC would review and approve interim vouchers for payment and perform periodic accounting system audits, but a formal agreement is still needed to address which country's fiscal laws and accounting standards the Canadian companies would be measured against during an accounting system or voucher review. As of March 2013, DPAP and PWGSC had not negotiated a formal agreement that defined audit support responsibilities for U.S contracts and subcontracts with Canadian companies.

The Director, DPAP, should continue to negotiate and finalize an agreement between the U.S. and Canadian governments for U.S. prime contracts and subcontracts with Canadian companies, which allows PWGSC to perform audit support services to include accounting system and interim voucher reviews, but require that the audit services comply with applicable U.S. fiscal laws and accounting standards.

The Director, DCMA, should determine the adequacy of GDLS-Canada's accounting system by requesting that PWGSC verify that actual costs are tracked to the appropriate project tasks and that interim vouchers reconcile with cost accounts based on costs that were actually incurred during the appropriation period of availability.

Management Actions by PMO Stryker

As a result of our March 2012 preliminary briefing of the accounting system deficiencies, PMO Stryker issued a procuring contracting officer (PCO) letter that informed GDLS, Inc. and GDLS-Canada that the practice of billing to expired CLINs for cost incurred in a subsequent period of performance is prohibited and such a billing practice must be corrected. Specifically, the PCO letter, dated March 7, 2012, stated:

This PCO [procuring contracting officer] letter is to notify the contractor that you are to adhere to the FAR, DFARS, and DOD Financial Regulation when billing cost to contract CLINs. You are not allowed to bill to past CLINs for cost incurred in a subsequent period of performance, unless allowed by regulation. This notification shall be passed on to any affiliate used to complete the terms and conditions of any contract issued. The contractor shall take all the necessary steps to correct your billing practices.

Corrective Action by Contractor

On July 18, 2012, GDLS-Canada responded that a new billing practice had been implemented, effective as of September 2011, which verified that actual costs tracked by task code on CLS delivery order 0169 and all future contract delivery orders would be billed to the correct CLIN. In addition, according to GDLS-Canada officials, the new billing practice was not implemented for CLS delivery order 0019 until July 2012. A GDLS, Inc. finance official stated that GDLS-Canada will initiate a manual review to validate that demand for a part is assigned to the correct CLIN, which will then charge the material cost to the appropriate project task that was responsible for consuming the

material when back-filling material that was transferred from one project task to another for consumption. The official stated that the CLINs will be billed according to where the actual material requirement was assigned.

GDLS-Canada did not believe that retroactive corrective actions were necessary for delivery order 0019 because the total amount billed on contract did not exceed the total cost obligated on the delivery order level, yielding no net effect to the Army for over or under billing. According to GDLS-Canada officials, the effort to retroactively correct the incurred cost allocations based on the period in which the cost were incurred, would require an extensive amount of time and manpower. In November 2012, GDLS-Canada officials deferred the decision to initiate corrective action to PMO Stryker; however, as of March 2013, according to the project manager, PMO Stryker was still deliberating with

If the past reimbursable charges are not reconciled to the actual period of performance in which the costs were incurred, the associated PMO Stryker payments may result in potential ADA violations.

GDLS-Canada to determine if such a reconciliation effort was plausible. If the past reimbursable charges are not reconciled to the actual period of performance in which the costs were incurred, the associated PMO Stryker payments may result in potential ADA violations.

The Program Executive Officer, Ground Combat Systems should direct the Project Manager, Stryker with support from the Army Contracting Command-Warren contracting officer, to require GDLS-Canada to retroactively apply its revised billing procedures to delivery order 0019 and apply actual incurred costs to the appropriate project task and reconcile actual incurred cost to the appropriate CLINs based on when the costs were incurred.

Additionally, if the reconciliation of delivery order 0019 results in any apparent obligations that would exceed funds available in a formal subdivision of funds, the Program Executive Officer, Ground Combat Systems should direct the Project Manager, Stryker with support from the Director, Army Contracting Command-Warren, to report the suspected ADA violations to the Assistant Secretary of the Army (Financial Management and Comptroller).

DCMA and PWGSC Coordination of Canadian Cost Verification Procedures Was Inadequate

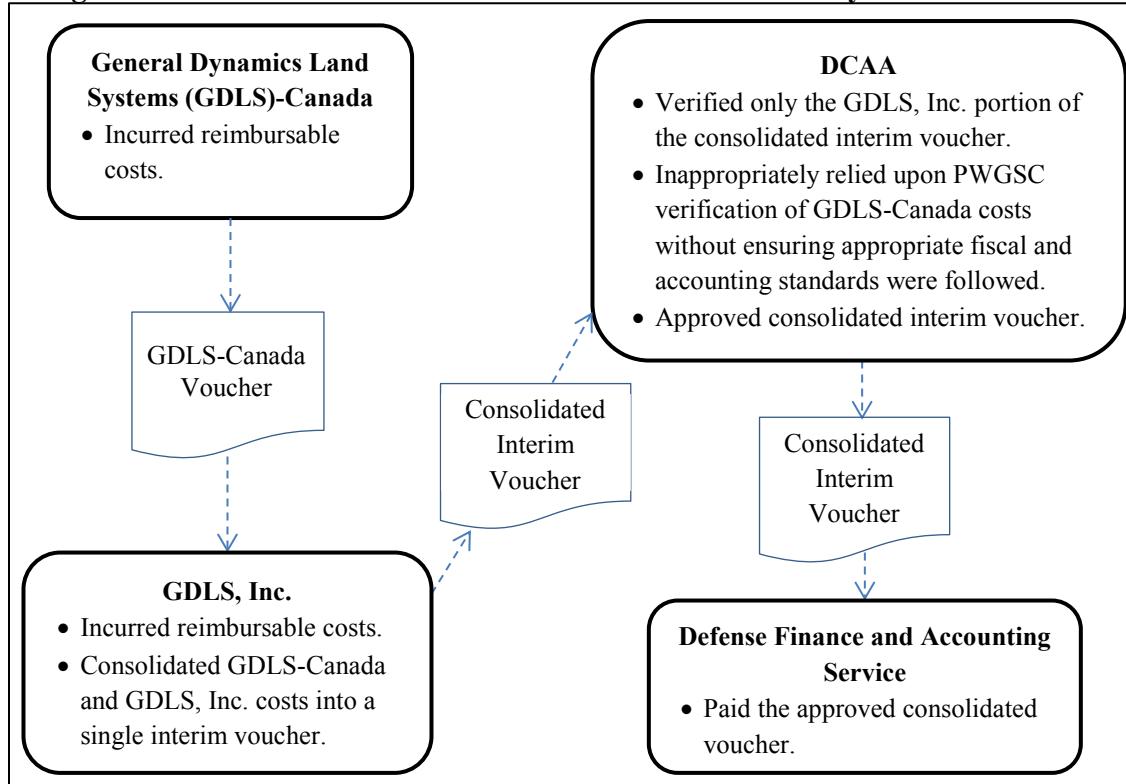
DCMA did not coordinate with PWGSC to develop adequate verification procedures for GDLS-Canada's material charges before the DCAA resident office approved the consolidated interim vouchers submitted for payment. This was due to inadequately defined standards for reciprocal audit support services between the U.S. and Canadian governments for DoD procurements. On February 19, 2009, DCAA resident office rescinded GDLS, Inc. authorization to direct bill and assumed the responsibility for reviewing the contractor's vouchers before payment was made by the Defense Finance

The DCAA resident office approved payments totaling about \$1.5 billion...without verifying that GDLS-Canada's portion of the reimbursable costs was complete and accurate.

and Accounting Service. As of February 2013, the DCAA resident office approved payments totaling about \$1.5 billion on the Stryker CLS contract without verifying that GDLS-Canada's portion of the reimbursable costs was complete and accurate, which increases the risk of improper payments. GDLS, Inc. and GDLS-Canada generate separate

cost vouchers that are consolidated into a single voucher that is submitted to the Government. See Figure 6 for illustration of the ineffective process for approving consolidated interim vouchers without verification of GDLS-Canada's material charges.

Figure 6. Government Voucher Review Process for the Stryker CLS Contract



DCMA and DCAA Provided Inconsistent Reasons for the Lack of Oversight

DCMA-Detroit ACO and DCAA resident office auditors' justifications for not verifying GDLS-Canada's voucher cost were inconsistent. Specifically, DCMA-Detroit and DCAA resident office officials initially believed that they were not responsible for verifying or overseeing PWGSC's verification of GDLS-Canada's voucher costs because a 1956 reciprocal agreement between the U.S. and Canada prohibited it. Subsequently, the DCAA resident office changed its position and stated that a December 2002 agreement between PWGSC, DCMA-Canada, and PMO Stryker prohibited DCMA and DCAA from verifying GDLS-Canada voucher cost.

DCMA and DCAA Misinterpreted the Terms of the United States-Canada Reciprocal Agreement

During meetings in July 2010 and August 2011, a DCMA-Detroit ACO and DCAA resident office auditors stated that a reciprocal agreement between the U.S. and Canada prohibited the DCAA resident office from reviewing and verifying voucher costs claimed by GDLS-Canada because it was a Canadian company. However, DCMA-Detroit and DCAA resident office officials misinterpreted the agreement because the agreement applied to contracts for supplies and services awarded to the Canadian Commercial Corporation, and the Stryker contract was awarded to GM GDLS Defense Group, L.L.C., which was a U.S.-based entity. Specifically, the "Defence Production Sharing Agreement Between Canada and the United States of America," states:

Text of Agreement dated 27 July 1956, as amended 17 December 1956, 31 May 1957, 6 January 1961, and 15 October 1962, between the Department of Defence Production (Canada) and the U.S. Departments of the Army, the Navy, the Air Force, and the Defense Supply Agency, sets forth policies and provides procedures with respect to all contracts for supplies and services placed with the Canadian Commercial Corporation on or after 1 October 1956.

This agreement applies to all contracts placed, on or after October 1, 1956, by any of the Military Departments with the Corporation. It shall remain in force from year to year until terminated by mutual consent; however, it can be terminated on the 31st day of December or the 30th day of June in any year by either party provided that six months' notice of termination has been given in writing. In addition, this agreement provides for certain reciprocal arrangements facilitating procurement by each of the parties in the country of the other. [emphasis added]

If the reciprocal agreement was applicable, it still would not have prohibited a DCMA or DCAA from requesting an interim voucher review of a Canadian company. Instead, the agreement implicitly authorized the DCMA ACO and DCAA resident office auditors to coordinate with PWGSC auditors, and in appropriate circumstances, authorized the DCMA ACO to request the DCAA resident office to perform its own interim voucher reviews of the Canadian company. The agreement states:

The Department of National Defence (Canada) or any Military Department may provide liaison with the other's inspection personnel in connection with the foregoing. It is understood that either the Department of National Defence (Canada) or any Military Department may in appropriate cases arrange for inspection by its own inspection organization in the other's country.

DCAA Misinterpreted the Terms of the PMO Stryker and PWGSC Agreement

In September 2011, after clarification from PWGSC, the DCAA resident office auditor clarified the August 2011 statement that the 1956 reciprocal agreement prohibited DCAA auditors from verifying GDLS-Canada's cost, and stated that the reciprocal agreement did not apply to the Stryker contract. Instead, the DCAA resident office auditor stated that the terms in the December 2002 agreement between PMO Stryker, DCMA-Canada, and PWGSC, established that PWGSC would be responsible for reviewing and verifying the claimed cost of GDLS-Canada. However, the agreement did not prohibit DCMA or DCAA involvement in the process. In fact, the agreement encouraged PWGSC auditors to work closely with DCMA-Canada when needed.

As we agreed, PWGSC [Public Works and Government Services, Canada] will be pleased to work closely with the U.S. Army, with your PCOs [procuring contracting officers], your negotiation teams as well as with the DCMA [Defense Contract Management Agency] Office in London. We did establish a process for your office to have direct access to our Cost Auditors/Analysis for urgent or unique inquiries, with the ACO [administrative contracting officer] in London being advised accordingly.

As part of this process, we both felt it extremely beneficial that PWGSC Cost Auditors/Analysts meet with you and your team, on a monthly basis, choosing the last Tuesday morning of each month. These meetings will be either in person at TACOM or held by teleconference.

Further, as discussed earlier in the report section, "Agreement with Public Works and Government Services Canada," the agreement did not sufficiently define the type of audit services that PWGSC would perform.

PWGSC Interim Voucher Reviews Were Insufficient

DCAA resident office officials relied on insufficient interim voucher reviews of GDLS-Canada's material cost performed by PWGSC to approve the consolidated interim vouchers submitted by GDLS, Inc. DoD Financial Management Regulation (DoD FMR) 7000.14-R, volume 10, "Contract Payment Policy and Procedures," chapter 8, "Commercial Payment Vouchers and Supporting Documents," states that the DCMA ACO may delegate the responsibility for approving interim vouchers to DCAA, but the ACO must approve the final completion voucher for cost-reimbursable contracts.

080404. Invoice

E. Invoices Requiring Administrative Contracting Officer (ACO) Approval.

The Defense Contract Audit Agency (DCAA) is the authorized representative of the ACO for approving all interim vouchers for provisional payments, except the final voucher. DCAA also approves for payment interim vouchers for commercial and non-commercial Time and Material (T&M) and Labor Hour (LH) vouchers. See DoD Directive 5105.36 for additional information. **The following invoices and vouchers require ACO approval before payment.**

1. Completion vouchers under cost-plus fixed-fee or other cost-reimbursement contracts. [emphasis added]

PWGSC performed two types of reviews on GDLS-Canada interim vouchers: cursory and quarterly reviews. Cursory reviews involved the verification of contractor overhead rates and mathematical calculations on the voucher. The quarterly review was a more detailed review in which PWGSC selected a single voucher from the universe of GDLS-Canada vouchers submitted during the quarter under all Stryker program contracts (not just CLS delivery orders). As part of the quarterly reviews, PWGSC verified mathematical accuracy by reviewing revenue and expense reports, listing of materials purchased, labor charges, and other direct material costs. Additionally, PWGSC performed material cost verification by selecting a sample of material purchases and matching them to the purchase order and voucher.

Cursory Reviews Did Not Add Value

According to PWGSC officials, cursory reviews were performed on all GDLS-Canada's voucher claims to the U.S. Government. However, PWGSC's cursory reviews did not confirm that material cost submitted for payment were accurate by verifying that the material conformed to the contract, the material was received, and payment was legal under the appropriation as required by the DoD FMR 7000.14-R. DoD FMR 7000.14-R, volume 10, "Contract Payment Policy and Procedures," chapter 8, "Commercial Payment Vouchers and Supporting Documents," states:

080206. Title 31 USC 3325 authorizes disbursing officers to disburse money only when provided a voucher certified by a properly appointed certifying officer. The certified voucher attests that the payment is legal, correct, and proper. As stated in 31 USC 3528, certifying officers are pecuniarily liable for payments not meeting these requirements unless granted relief. **Officers who certify commercial (goods and services) payments must ensure that:**

- A. **A legal obligation to pay exists (typically a contract),**
- B. **The payee has fulfilled any prerequisites to payment (typically an invoice and receiving report),**
- C. **The amount of the payment and identity of the payee are correct, and**
- D. **The payment is legal under the appropriation or fund involved (typically the correct fiscal year and appropriation).** [emphasis added]

DCMA-Canada and the DCAA resident office accepted PWGSC's cursory review conclusions that GDLS-Canada's interim voucher costs were accurate without any

substantiation of the costs incurred. An example is shown in an e-mail submitted in September 2008 to the DCAA resident office:

PWGSC confirms that the listed Cost Vouchers and Progress Claims were reviewed by us and deemed adequately priced. We would appreciate your communicating DCMA [Defense Contract Management Agency] London's acceptance with the applicable parties accordingly.

Quarterly Reviews Did Not Occur for Years

Despite performance on Stryker CLS delivery order 0019 beginning on March 1, 2007; PWGSC did not complete its first detailed quarterly review of the delivery order until November 28, 2011, which was almost 5 years later. PWGSC began its first voucher review of delivery order 0019 as a result of our audit inquiries in preparation for our site visit on November 17, 2011. A PWGSC official stated, in an e-mail dated November 15, 2011, that:

We can certainly discuss the review process, but I remind you that this process applies to the entire Stryker Program, not just the CLS [contractor logistics support] contract. We are checking but are not sure if a recent review has been done on a CLS voucher. Based upon our earlier correspondence I asked [name omitted] of my staff to select a CLS voucher for this quarter. He is currently in the process of performing that review and we can certainly share what we reviewed to date.

As a result of a special request from the DCAA resident office in a letter, dated November 14, 2011, PWGSC completed similar detailed reviews for three more vouchers on Stryker CLS delivery orders 0169 on June 29, 2012. PWGSC concluded that the sampled material purchased reconciled to supporting documentation. However, the detailed reviews did not verify that the GDLS-Canada's reimbursable expenses were charged based on costs incurred during the period in which appropriated funds were available. Additionally, on November, 7, 2012, the PMO Stryker PCO requested in a letter that the DCMA-Detroit ACO provide oversight of GDLS-Canada's billings and associated Government payments for parts as a result of the GDLS-Canada's accounting system weaknesses identified in this audit.

As of March 2013, the DCMA-Detroit ACO still had not coordinated an adequate plan with PWGSC to execute interim voucher and payment oversight as PMO Stryker requested because DPAP and PWGSC had not formalized a reciprocal defense procurement memorandum of understanding that would require Canadian companies to comply with applicable U.S. fiscal laws and accounting standards on DoD prime contracts and subcontracts with Canadian companies.

The Director, DCMA, should request PWGSC to develop and implement an audit plan that verifies GDLS-Canada material cost claims comply with applicable U.S. fiscal laws and accounting standards before DCAA approves the consolidated interim vouchers submitted by GDLS, Inc. for Defense Finance and Accounting Service payments.

Management Comments on the Finding and Our Response

The Deputy Program Executive Officer, Ground Combat Systems (Deputy PEO) disagreed with the report depiction on the potential impacts of the contractor accounting system weakness on the DoD budget and identified additional management action taken to reconcile the costs charged by GDLS-Canada against delivery order 0019 that should be included in the final report.

Department of the Army Comments on DoD Budgetary Impacts

The Deputy PEO stated that budget planning for material requirements was not based on financial reports of money charged or budget lines charged for parts procured, as he believed the report implied. Instead, the Deputy PEO stated that budget planning for materials was based on actual consumption in prior years by quantity, part number, National Stock Number, and nomenclature during maintenance, repair, and overhaul activities. Therefore, he requested that the following paragraph in the report be deleted:

The Stryker sustainment efforts (CLS garrison and deployment, reset, and battle damage assessment and repair) were funded under separate budget line items. The CLS garrison funds were provided from the base DoD budget. CLS deployment, reset, and battle damage assessment and repair efforts were funded from the supplemental DoD budget and segregated by the Army into sub-activity groups for budgetary tracking. Therefore, uncorrected GDLS-Canada's accounting system deficiencies may misrepresent the actual material consumption cost which contributes towards future budgetary justifications for the distinct budget line items.

Department of the Army Comments on Management Action Taken

The Deputy PEO stated that the Army Contracting Command-Warren took additional management action to correct the contractor accounting system deficiencies by issuing a series of PCO letters to GDLS-Canada.

- On June 27, 2012, PCO letter LNW521 was issued to notify GDLS, Inc. of the risk for potential Antideficiency Act violations identified by DoD IG and required the contractor to submit a written plan, which described any action taken to correct GDLS-Canada's irregular billing practices and any plans to prevent future occurrences.
- On April 4, 2013, PCO letter SJB129 was issued to require GDLS, Inc. to provide verification that the billing procedure corrective actions taken were effective and determine whether the GDLS-Canada billing practices for delivery order 0019 violated the Antideficiency Act. Further, Army Contracting Command-Warren stated that, contingent on GDLS-Inc. responses, the Government intended to perform an audit of GDLS-Canada's billing practices.
- On April 25, 2013, PCO letter SJB137 was issued to notify GDLS, Inc. that based on a review of GDLS-Canada billings, the Government planned to perform an audit at GDLS-Canada. Army Contracting Command-Warren also directed

GDLS-Canada to provide supporting documentation that no Antideficiency Act violations occurred and to retroactively apply the revised corrective billing procedures to delivery order 0019.

- On May 7, 2013, PCO letter SJB139 was issued to provide GDLS, Inc. with the supporting documentation that the Government used to perform its analysis of GDLS-Canada work orders with irregular billing.

Our Response

We believe that the contractor accounting system weaknesses could potentially misrepresent actual historical material consumption costs, which are relied upon for budget planning. We agree with the Deputy PEO that budget planning is based on actual historical material consumption, but the costs associated with the material consumption is an integral part of planning the budget for future years. Each Stryker sustainment effort was executed under a distinct budget which was based on historical material consumption cost. Our report identified that the contractor did not appropriately charge the contract to backfill for consumed materials according to the sustainment effort and fiscal year under which material was actually consumed; therefore, the misallocated costs of backfilling for the consumed material may not provide a reliable historical baseline for future budgets.

Recommendations, Management Comments, and Our Response

1. We recommend that the Director, Defense Procurement and Acquisition Policy, continue to negotiate and finalize a reciprocal agreement between the U.S. and Canadian governments for U.S. prime contracts and subcontracts with Canadian companies that allows Public Works and Government Services, Canada to perform audit support services to include accounting system and interim voucher reviews, but require that the audit services comply with applicable U.S. fiscal laws and accounting standards.

Defense Procurement and Acquisition Policy Comments

The Director, DPAP agreed with the recommendation. The Director, DPAP stated that PWGSC has agreed to negotiate a reciprocal defense procurement memorandum of understanding that includes an annex for audit services that requires parity in priority, timeliness, and information. However, the Director, DPAP stated that until the agreement has been completed, effective July 1, 2013, DPAP and PWGSC have agreed that PWGSC will resume audit services at no cost for U.S prime contracts and subcontracts awarded directly to Canadian firms. Additionally, the Director, DPAP stated that the interim PWGSC audit services will produce report information in parity with DCAA audit reports.

Our Response

The Director, DPAP comments were responsive and met the intent of the recommendation. No further comments were required.

2. We recommend that the Director, Defense Contract Management Agency request Public Works and Government Services, Canada, to:

- a. Review General Dynamics Land Systems-Canada accounting system for adequacy by verifying that actual costs are tracked to the appropriate project tasks and that interim vouchers reconcile with cost accounts based on costs that were actually incurred during the appropriation period of availability.**
- b. Develop and implement an audit plan for verifying that General Dynamics Land Systems-Canada material cost claims comply with applicable U.S. fiscal laws and accounting standards before the Defense Contract Audit Agency approves the consolidated interim vouchers submitted by General Dynamics Land Systems, Inc. for Defense Finance and Accounting Service payments.**

Defense Contract Management Agency Comments

The Executive Director of Contracts, DCMA, agreed with the recommendations. The executive director stated once the U.S. and Canadian governments finalized an agreement for audit services that complied with applicable U.S fiscal laws and accounting standards, DCMA would request that PWGSC perform a review of GDLS-Canada accounting system to: 1) determine if the accounting system is acceptable based on DFARS 252.242-7006 as a prerequisite to receiving cost type contracts; 2) verify that actual costs incurred can be tracked to appropriate project tasks; and 3) validate that the system can reconcile interim vouchers with cost accounts based on costs incurred during the appropriation period of availability. Additionally, he stated that an audit review plan was necessary to verify that material costs complied with applicable U.S. fiscal laws and accounting standards. Further, the executive director stated that once GDLS-Canada accounting systems is determined adequate in accordance with DFARS 252.242-7006, then DCMA will request PWGSC to perform a post payment review on random interim vouchers to verify the costs claimed.

Our Response

The Executive Director of Contracts, DCMA comments were responsive and met the intent of the recommendations. No further comments were required.

3. We recommend that the Program Executive Officer, Ground Combat Systems, direct the Project Manager, Stryker Brigade Combat Team with support from the Director, Army Contracting Command-Warren, to:

- a. Require General Dynamics Land Systems-Canada to retroactively apply its revised billing procedures to delivery order 0019 and apply actual costs to the appropriate project task and reconcile actual cost to contract line item numbers based on costs that were actually incurred during the appropriation period of availability.**
- b. Report suspected Antideficiency Act violations to the Assistant Secretary of the Army (Financial Management and Comptroller) if the reconciliation of**

delivery order 0019 results in any apparent obligations that would exceed funds available in a formal subdivision of fund.

Department of the Army Comments

The Deputy PEO agreed with the recommendations. The Deputy PEO stated that on April 25, 2013, the Stryker Brigade Combat Team with support from the Director, Army Contracting Command-Warren, directed GDLS-Canada to retroactively apply its revised billing procedures to delivery order 0019 and apply actual costs to the appropriate project task and reconcile actual cost to the contract line item numbers based on costs that were actually incurred during the appropriation period of availability. He stated that on May 22, 2013, PMO Stryker and GDLS, Inc. agreed on a specific methodology to utilize material purchase orders to analyze the billings under delivery order 0019. The Deputy PEO stated that, as of June 7, 2013, the reconciliation had begun and would require the review of almost 625,000 parts, purchased on nearly 62,000 purchase orders and billed to 131 contract line item numbers. According to the Deputy PEO, the reconciliation is projected to be completed on August 6, 2013.

Additionally, the Deputy PEO stated that if the reconciliation of delivery order 0019 resulted in any obligations that exceeded the funds available in a formal subdivision of funds then the Stryker Brigade Combat Team with support from the Director, Army Contracting Command-Warren, will report any suspected Antideficiency Act violations to the Assistant Secretary of the Army (Financial Management and Comptroller) in accordance with DoD FMR, volume 14, chapter 3, sections 0301 and 0302. The Deputy PEO also stated that any reporting of suspected Antideficiency Act violation would occur no later than August 20, 2013, which is within two weeks of the completion of the reconciliation being performed in response to recommendation 3.a.

Our Response

The Deputy PEO comments were responsive and met the intent of the recommendations. No further comments were required.

Appendix. Scope and Methodology

We conducted a series of three performance audits¹² from October 2010 through May 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Interviews and Documentation

We met with representatives from the Director, DPAP; Assistant Secretary of the Army (Financial Management and Comptroller); PMO Stryker; and Director, DCMA, Warren, Michigan. In addition, we interviewed personnel from the Army Contracting Command, Warren, Michigan; DCAA, Sterling Heights, Michigan; GDLS, Inc. in Sterling Heights, Michigan and GDLS-Canada in London, Ontario, Canada.

We reviewed a copy of the Stryker CLS contract W56HZV-07-D-M112 and acquisition planning documentation from PMO Stryker, dated from June 2006 to December 2012. Specifically, for contract W56HZV-07-D-M112, we reviewed CLS contract line items of more than \$40 million on delivery orders 0019, 0169, and 0269 which totaled approximately \$1.6 billion. Additionally, we reviewed GDLS-Canada's purchase orders and invoices that supported consolidated interim billing vouchers. Further, we obtained Government disbursement data for the Stryker CLS contract from Defense Finance and Accounting Service-Columbus as of February 2013.

We reviewed the public laws, United States Code, FAR, DoD FMR, and DFARS for guidance related to contractor billings. We also reviewed agreements and memorandums related to audit services performed by PWGSC issued by the Under Secretary of Defense for Acquisition, Technology, and Logistics; PMO Stryker; and PWGSC.

We reviewed GDLS-Canada's reimbursable cost transactions on contract W56HZV-07-D-M112, delivery order 0019, but we were unable to analyze the contractor's cost to determine the scope of work and performance period in which the cost were actually incurred because of the contractor's accounting system limitations.

¹² We issued final reports for the previous two performance audits. The first report, DODIG-2012-102, "Better Cost-Control Measures Are Needed on the Army's Cost-Reimbursable Services Contract for Logistics Support of Stryker Vehicles," June 18, 2012, addressed contract type and performance metrics. The second report, DODIG-2013-025, "Accountability Was Missing for Government Property Procured on the Army's Services Contract for Logistics Support of Stryker Vehicles," November 30, 2012, addressed controls over Army-owned Stryker inventory.

Use of Computer-Processed Data

We relied on computer-processed data from the Mechanization of Contract Administration Services system to identify the total amount spent on CLS contract line item numbers with obligated amounts of \$40 million or more under contract W56HZV-07-D-M112 delivery orders 0019, 0169, and 0269. The Mechanization of Contract Administration Services system is an integrated system supporting post award contract administration that is used by Defense Finance and Accounting Service-Columbus to make contract payments. To assess the reliability of Mechanization of Contract Administration Services system data, we compared the data to GDLS interim billing vouchers. We determined that the data extracted from Mechanization of Contract Administration Services system provided sufficient and complete evidence that was reliable for the purposes of this report.

In addition, we relied on computer-processed data from the Electronic Document Access system to identify the period of performance and total obligated amount for contract line items of \$40 million or more under contract W56HZV-07-D-M112 delivery orders 0019, 0169, and 0269. The Electronic Document Access system is a web-based system that provides secure online access, storage, and retrieval of contracts and contract modifications to authorized users throughout DoD. To assess the reliability of contract modifications extracted from the Electronic Document Access system, we compared the contract modifications to PMO Stryker contract files. We determined that the contract modifications extracted from the Electronic Document Access system provided sufficient and complete evidence that was reliable for the purposes of this report.

Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) issued two reports related to the Army logistics support contract for the Stryker vehicle with GDLS. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

DoD IG

Report No. DODIG-2013-025, “Accountability Was Missing for Government Property Procured on the Army’s Services Contract for Logistics Support of Stryker Vehicles,” November 30, 2012

Report No. DODIG-2012-102, “Better Cost-Control Measures Are Needed on the Army’s Cost-Reimbursable Services Contract for Logistics Support of Stryker Vehicles,” June 18, 2012

Defense Procurement and Acquisition Policy Comments



OFFICE OF THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

JUN 13 2013

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

MEMORANDUM FOR PROGRAM DIRECTOR, ACQUISITION AND CONTRACT
MANAGEMENT, OFFICE OF THE INSPECTOR GENERAL

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *RS 6/13/13*

SUBJECT: Response to DoD Office of the Inspector General Draft Report on "DoD Oversight Improvements Are Needed on the Contractor Accounting System for the Army's Cost-Reimbursable Stryker Logistics Support Contract" dated May 7, 2013 (Project No. D2011-D000CH-0032.002)

As requested, I am providing responses to the general content and recommendations contained in the subject report.

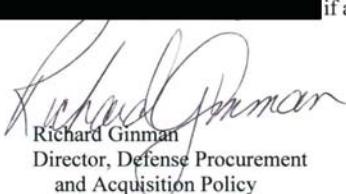
Recommendation 1:

We recommend that the Director, Defense Procurement and Acquisition Policy, continue to negotiate and finalize a reciprocal agreement between the U.S. and Canadian governments for U.S. prime contracts and subcontracts with Canadian companies that allows Public Works and Government Services, Canada to perform audit support services to include accounting system and interim voucher reviews, but require that the audit services comply with applicable U.S. fiscal laws and accounting standards.

Response:

Concur. The Government of Canada has agreed to negotiate a current Reciprocal Defense Procurement Memorandum of Understanding to include an annex on audit services that requires parity in priority, timeliness, and information and has engaged in the first meeting to that end. In the interim, the Director, Defense Procurement and Acquisition Policy and Public Works and Government Services, Canada have agreed to resume no cost assist audits of U.S. DoD direct contracts and subcontracts with Canadian companies effective July 1, 2013, as reflected in the attachments.

Please contact [REDACTED] if additional information is required.



Richard Ginnan
Director, Defense Procurement
and Acquisition Policy

Attachments:
As stated



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

JULY -5 2013

MEMORANDUM FOR COMMANDER, UNITED STATES SPECIAL OPERATIONS
COMMAND (ATTN: ACQUISITION EXECUTIVE)
COMMANDER, UNITED STATES TRANSPORTATION
COMMAND (ATTN: ACQUISITION EXECUTIVE)
DEPUTY ASSISTANT SECRETARY OF THE ARMY
(PROCUREMENT)
DEPUTY ASSISTANT SECRETARY OF THE NAVY
(ACQUISITION AND PROCUREMENT)
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING)
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Change in Audit Cognizance of U.S. DoD Direct Contracts and Subcontracts with Canadian Companies

Public Works and Government Services Canada (PWGSC) has made arrangements to resume no cost assist audits of the U.S. DoD Direct contracts and subcontracts with Canadian companies. In addition, the Government of Canada has agreed in principle to negotiate a current Reciprocal Defense Procurement Memorandum of Understanding (RDP MOU) to include an annex on audit services that requires parity in priority, timeliness, and information. The DoD has agreed to this good faith effort and initiated technical discussions to that end.

Effective July 1, 2013, Canada will resume assist audits on Canadian contractors in support of subcontract work under U.S. prime DoD contracts, as well as those audits on U.S. DoD contracts that are awarded directly to a Canadian company. PWGSC also will continue to perform audits of U.S. DoD contracts awarded to Canadian companies via the Canadian Commercial Corporation as required by international agreement. Consequently, effective July 1, 2013, my memorandum dated November 20, 2012, is rescinded.

The DCMA and DCAA points of contact will be responsible for ensuring a smooth transfer of pending audit requests to PWGSC. The DCAA point of contact is [REDACTED] The DCMA point of contact is [REDACTED] The DPAP point of contact is [REDACTED]

Richard Ginman
Director, Defense Procurement
and Acquisition Policy

ATTACHMENT



OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

JUN - 5 2013

[REDACTED]
Associate
Assistant Deputy Minister
Acquisitions Branch
Public Works and Government Services Canada
Ottawa, Canada
K1A 0S5

Dear [REDACTED]

Thank you for your latest letter offering to revert to the past practice of providing audit services at no cost to the U.S. Government. We agreed that both countries would formalize our reciprocal audit services in an audit annex to a Reciprocal Defense Procurement Memoranda of Understanding (RDP MOU).

I understand that the first technical discussions were held on March 15, 2013, and that follow on meetings are scheduled.

As a measure of good faith, I have drafted the enclosed policy memorandum announcing that, effective July 1, 2013, Public Works and Government Services Canada (PWGSC) would resume no cost assist audit services for DoD contracts with Canadian firms. For the interim period, until an approved RDP MOU is negotiated, I am requesting you provide information in PWGSC audit reports on parity with the information provided in DCAA audit reports and that you provide "Acknowledgement of Receipt" and "Estimate of Completion Date" notifications within 25 days of receipt of an audit request.

Please indicate if the implementation date for resumption of audit services and conditions of audit are acceptable to your organization.

We look forward to working with Canada to achieve a mutual agreement for the benefit of both countries.

Sincerely,

Richard Ginnman
Director, Defense Procurement
and Acquisition Policy

Enclosure:
As stated

ATTACHMENT

Department of the Army Comments



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310

SAAL-SMS

7 JUN 2013

MEMORANDUM FOR UNITED STATES ARMY AUDIT AGENCY, 3101 PARK-CENTER DRIVE, ALEXANDRIA, VA 22302

SUBJECT: Department of Defense Oversight Improvements Are Needed on the Contractor Accounting System for the Army's Cost-Reimbursable Stryker Logistics Support (Project No. D2011-D000CH-0032.002)

1. I concur with the response provided by the Program Executive Office, Ground Combat Systems provided at the enclosure.
2. The point of contact is [REDACTED]

Enclosure

A handwritten signature in black ink, appearing to read "H. J. Greene".

Harold J. Greene
Major General, GS
Deputy for Acquisition
And System Management



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
PROGRAM EXECUTIVE OFFICE
GROUND COMBAT SYSTEMS
6501 E. ELEVEN MILE ROAD
WARREN, MICHIGAN 48397-5000

04 JUN 2013

SFAE-GCS

MEMORANDUM Program Director – Acquisition and Contract Management, Department of Defense Office of the Inspector General (DoDIG), 4800 Mark Center Drive, Alexandria, Virginia 22302-1500

SUBJECT: Draft Report: DoD Oversight Improvements Are Needed on the Contractor Accounting System for the Army's Cost-Reimbursable Stryker Logistics Support Contract (Project No: D2011-D000CH-0032.002)

1. Reference memorandum, DoDIG, dated 7 May 2013, subject as above.
2. The Program Executive Office, Ground Combat Systems has received the subject DoDIG Draft Report. We have reservations about some of the comments in the report. The contract reviewed as part of the report adhered to the Federal Acquisition Regulation and Defense Federal Acquisition Regulation Supplement in place at the time of award. This was not adequately reflected in the report.
3. With regard to the recommendations in the report, although we did not agree with some of the findings, we do agree with recommendations 3(a) and 3(b). Our specific comments are contained in the enclosed reply.
4. The TACOM Internal Review and Audit Compliance Office will track the status of the corrective actions through completion.
5. The point of contact for this reply is [REDACTED]

Encl

Thomas H. Bagwell
THOMAS H. BAGWELL, JR., SES
Deputy Program Executive Officer,
Ground Combat Systems

Final Report Reference

Program Executive Office, Ground Combat Systems (PEO GCS)
Comments to DoD Inspector General Draft Report, DoD Oversight Improvements Are
Needed on the Contractor Accounting System for the Army's Cost-Reimbursable Stryker
Logistics Support Contract
(Project No. D2011-D000CH-0032.002)

Objective: DoDIG's overall objective was to evaluate the effectiveness of the contractor logistics support sustainment strategy for Stryker vehicles. Specifically, DoDIG reviewed contract funding procedures, contract type, performance metrics, contractor billings, and controls over Government property that is being managed by the contractor. This report is the third in a series of three reports and reviews the contracting funding procedures, contract type, performance metrics, contractor billings, and controls over Government property that is being managed by the contractor.

DoDIG Conclusion: Project Management Office (PMO) Stryker and DCMA-Detroit did not verify that General Dynamics Land Systems-Canada's (GDLS-Canada) accounting system was adequate during the execution of the cost-reimbursable services contract for logistics support of Stryker vehicles, as required by the Federal Acquisition Regulation (FAR) Subpart 16.3, "Cost-Reimbursable Contracts." Additionally, PMO Stryker and DCMA-Detroit did not establish an adequate system of internal controls to review GDLS-Canada's accounting system and verify that the billing system for interim vouchers reconciled to the appropriate cost accounts, as required by the DFAR Supplement.

Additional facts:

1. PMO Stryker recommends that the paragraph at bottom of pages 11 and top of page 12 be deleted and replaced with:

"The Stryker sustainment efforts (Contractor Logistics Support [CLS] garrison and deployment, reset, and battle damage assessment and repair) were funded under separate budget line items. The CLS garrison funds were provided from the base DoD budget. The CLS deployment, reset, and battle damage assessment and repair efforts were funded from the supplemental DoD budget and segregated by the Army into sub-activity groups for budgetary tracking. Therefore, uncorrected GDLS-Canada's accounting system deficiencies may misrepresent the actual material consumption cost which contributes towards future budgetary justifications for the distinct budget line items."

Rational: Planning and budgeting for future material requirements are based on actual parts consumed in a given year by quantities, part number, National Stock Number, and nomenclature during sustainment and repair and overhaul activities, and is NOT based on a financial system report of the year of the money charged, or budget line charged, for a part procured.

2. In the DoDIG Draft Report, page 14, Management Actions by PMO Stryker, the PMO submits the following additional facts of actions taken:

The Army Contracting Command-Warren, Stryker Contracting Division has issued Contracting Officer Letters to GDLS regarding billing procedures.

On June 7, 2013, the Deputy PEO revised his response. See page 35.

PCO Letter LNW521 (27 June 2012) – Issued to notify GDLS of DoDIG investigation involving potential violation of 31 U.S.C. 1502(a). Also, required GDLS to submit formal actions taken and planned to correct irregular billing practices, and further, all actions planned to prevent future occurrences.

PCO Letter SJB129 (04 April 2013) – Issued to require 1) that GDLS provide their analysis and summary proving the actual effectiveness of billing procedure corrective actions, 2) that GDLS revisit whether Delivery Order 0019 billings violate 31 U.S.C. 1502(a) and to provide the analysis method used to make the determination, and 3) to put GDLS on notice that, upon USG review of items 1) and 2), the USG intends to travel to GDLS London to perform an audit.

PCO Letter SJB137 (25 April 2013) – Issued to notify GDLS that based on internal USG review of GDLS London billings, PM SBCT intends to perform the audit at GDLS London. PM SBCT provided these initial findings to GDLS and instructed GDLS to provide supporting documentation proving no violation of 31 U.S.C. 1502(a). Also directed GDLS to “retroactively apply the revised billing procedures to Delivery Order 0019 and apply actual incurred costs to the appropriate project task and to reconcile actual incurred cost to the appropriate CLIN based on when the costs were incurred”.

Both GDLS and USG met on 06 May 2013 to discuss the USG intention for the GDLS London Audit. USG briefed methodology for identifying work orders with irregular billing profiles, and both parties agreed to timing of the audit.

PCO Letter SJB139 (07 May 2013) – Issued to provide supporting documentation USG used in analysis of work orders with irregular billing profiles, and also to provide additional work orders that USG has found to be irregular.

The USG traveled to London, Ontario on 22 May 2013 to review GDLS’ response to PCO Letters SJB129, SJB137, and SJB139. PMO SBCT personnel were satisfied that GDLS-Canada has now implemented the necessary controls to ensure costs incurred are billed to the correct project task and contract line item.

Rationale: This accurately reflects the contractual actions taken by PMO SBCT to date.

Recommendation 3: Recommend that the Program Executive Officer, Ground Combat Systems, direct the Project Manager, Stryker Brigade Combat Team with support from the Director, Army Contracting Command-Warren, to:

- a. Require General Dynamics Land Systems-Canada to retroactively apply its revised billing procedures to delivery order 0019 and apply actual costs to the appropriate project task and reconcile actual cost to contract line item numbers based on costs that were actually incurred during the appropriation period of availability.
- b. Report suspected Anti-deficiency Act violations to the Assistant Secretary of the Army (Financial Management and Comptroller) if the reconciliation of delivery order 0019

results in any apparent obligations that would exceed funds available in a formal subdivision of fund.

Program Executive Officer Ground Combat Systems Comments:

Recommendation 3a. Concur. Program Executive Officer Ground Combat Systems and Project Manager for Stryker Brigade Combat Team with support from the Director, Army Contracting Command – Warren, have required General Dynamics Land Systems-Canada to retroactively apply its revised billing procedures to deliver order 0019 and apply actual costs to the appropriate project task and reconcile actual cost to contract line item numbers based on costs that were actually incurred during the appropriation period of availability as referenced above in PCO letter SJB137 dated 25 April 2013. Additionally, on 22 May 2013, Stryker Program Management Office and GDLS agreed on a specific methodology to utilize material purchase orders to analyze Delivery Order 0019 billings. This process is underway and requires the review of nearly 625,000 parts, over 62,000 purchase orders, across 176 work orders, billed to 131 sub-CLINs. Completion is projected for 06 August 2013.

Recommendation 3.b. Concur. In accordance with DoD FMR Vol. 14, Ch 3, Section 0301 and 0302, the Stryker Brigade Combat Team with support from the Director, Army Contracting Command – Warren, will report suspected Anti-deficiency Act violations to the Assistant Secretary of the Army (Financial Management and Comptroller) if the reconciliation of delivery order 0019 results in any apparent obligations that would exceed funds available in a formal subdivision of fund. Reporting of the suspected Anti-deficiency Act violation will occur within two weeks of completion of above recommendation 3a, 20 August 2013.



REPLY TO

DEPARTMENT OF THE ARMY
PROGRAM EXECUTIVE OFFICE
GROUND COMBAT SYSTEMS
6501 E. ELEVEN MILE ROAD
WARREN, MICHIGAN 48397-5000

PEO-GCS

07 Jun 2013

MEMORANDUM FOR Program Director – Acquisition and Contract Management, Department of Defense Office of the Inspector General, 4800 Mark Center Drive, Alexandria, Virginia 22302-1500

SUBJECT: Draft Report: DoD Oversight Improvements Are Needed on the Contractor Accounting System for the Army's Cost-Reimbursable Stryker Logistics Support Contract (Project No: D2011-D000CH-0032.002) – Correction to GCS Memo Dated 4 June, 2013

1. Reference:

- a. Memorandum, DODIG, dated 7 May 2013, subject as above.
- b. Memorandum, Department of the Army, PEO GCS, subject as above.

2. The following paragraph is correction to "Other Facts 1." page 1 of PEO GCS response.

"1. PMO Stryker recommends that the following paragraph at bottom of page 11 and top of page 12 be deleted :

"The Stryker sustainment efforts (Contractor Logistics Support [CLS] garrison and deployment, reset, and battle damage assessment and repair) were funded under separate budget line items. The CLS garrison funds were provided from the base DoD budget. The CLS deployment, reset, and battle damage assessment and repair efforts were funded from the supplemental DoD budget and segregated by the Army into sub-activity groups for budgetary tracking. Therefore, uncorrected GDLS-Canada's accounting system deficiencies may misrepresent the actual material consumption cost which contributes towards future budgetary justifications for the distinct budget line items."

Rational: Planning and budgeting for future material requirements are based on actual parts consumed in a given year by quantities, part number, National Stock Number, and nomenclature during sustainment and repair and overhaul activities, and is NOT based on a financial system report of the year of the money charged, or budget line charge, for a part procured."

3. Point of contact for this reply is [REDACTED]

Thomas H. Bagwell
THOMAS H. BAGWELL JR., SES
Deputy, Program Executive Officer
Ground Combat Systems

Defense Contract Management Agency Comments



DEFENSE CONTRACT MANAGEMENT AGENCY
3901 A AVENUE, BUILDING 10500
FORT LEE, VIRGINIA 23801

JUN 07 2013

MEMORANDUM FOR DEPARTMENT OF DEFENSE, INSPECTOR GENERAL, AUDIT
POLICY AND OVERSIGHT

SUBJECT: Draft Report DoD Oversight Improvements Are Needed on the Contractor
Accounting System for the Army's Cost-Reimbursable Stryker Logistics Support
Contract (Project No. D2011-DOOOCH-0032.002) dated May 07, 2013

The responses to recommendations 2a and 2b are dependent on the anticipated results of negotiations between the U. S. and Canadian governments to finalize an agreement for audit services that comply with applicable U. S. fiscal laws and accounting standards. The draft agreement titled Reciprocal Audits of Contracts and Subcontracts is applicable to Canadian companies that are issued contracts directly from the United States (U. S.) Department of Defense (DoD) and companies that perform as subcontractors to the prime contractor.

Recommendation 2a. Concur. DCMA will request that Consulting and Audit Canada (CAC) Public Works and Government Services, Canada (PWGSC) review General Dynamics Land Systems (GDLS)-Canada accounting system (as a joint partnership prime or subcontractor), to 1) determine accounting system acceptability based on the criteria found in contract clause DFARS 252.242-7006 as a prerequisite to receiving cost type contracts; 2) verify that actual costs incurred can be tracked to appropriate project tasks; and 3) validate the systems' ability to reconcile interim vouchers with cost accounts (based on costs incurred during the appropriation period of availability).

Recommendation 2b. Concur. DCMA agrees that an audit review plan is necessary to ensure that material cost claims comply with applicable U. S. fiscal laws and accounting standards. After GDLS-Canada accounting system is determined adequate to receive cost contracts or subcontracts containing DFARS 252.242-7006, DCMA will request that CAC PWGSC conduct detailed post payment reviews on randomly selected interim vouchers to verify cost claims. The number of interim vouchers selected for review shall be consistent with contractor's risk. Detailed post payment reviews will avoid unnecessary payment delays that can be caused by untimely detailed prepayment reviews. CAC will validate that GDLS-Canada accounting system is working properly and able to provide the level of details required. The Contracting Officer Representative and/or the Administrative Contracting Officer (ACO) shall monitor interim vouchers to ensure they do not contain contract line items with appropriations where period of availability has expired with respect to fiscal law.

The point of contact for our response is [REDACTED]
[REDACTED]

Timothy P. Callahan
Executive Director
Contracts



Inspector General Department *of* Defense